

**DELAWARE HEALTH FACILITIES AUTHORITY**

**Minutes of Meeting**

**of**

**January 6, 2020**

A Meeting of the Delaware Health Facilities Authority (the “Authority”) was held after proper notice at 11:00 a.m., January 6, 2020, in the offices of Potter Anderson & Corroon LLP at 1313 N. Market Street, 6<sup>th</sup> Floor, Wilmington, Delaware.

Attending in person were Authority members (such individuals, the “Members”), who constituted a quorum:

Rolf F. Eriksen (Chairman)  
Desmond A. Baker  
W. Jack Riddle  
Lisa More

Also attending in person were:

Matthew J. O’Toole of Potter Anderson & Corroon LLP, counsel to the Authority  
Alyssa G. Frank of Potter Anderson & Corroon LLP, counsel to the Authority  
Emilie Ninan of Ballard Spahr LLP (“Ballard”), bond counsel to the Authority  
Emily Abrantes of Prager & Co., LLC (“Prager”), financial advisor to the Authority  
Rob McMurray of Christiana Care Health System, Inc. (“CCHS”)  
Bonnie Graham of CCHS  
Drew Fennell of CCHS  
Brian Carter of PFM Financial Advisors LLC (“PFM”), financial advisor to CCHS  
Stephen Murphy of PFM  
Chris McCann of J.P. Morgan Securities LLC  
Nevena Simidjiyska of Fox Rothschild LLP, counsel to CCHS

The following individuals participated in the meeting via conference telephone call by means of which all participants in the meeting could hear each other:

Howard A. Palley, Ph.D.

There were no members of the public in attendance.

All documents referred to in these Minutes and not attached hereto are filed in the records of the Authority.

Chairman Rolf F. Eriksen called the meeting to order at 11:10 a.m.

**Consideration of Application for Revenue Bond Financing Submitted by Christiana Care Health System, Inc.**

The meeting opened with a discussion of the Application for Revenue Bond Financing dated December 6, 2019 (as supplemented on December 16, 2019, December 30, 2019, January 2, 2020 and January 6, 2020, the “Application”), submitted by Christiana Care Health System, Inc. (“CCHS”), requesting the Authority’s issuance of bonds in an amount not to exceed \$330,000,000 (the “Series 2020 Bonds”).

CCHS, its advisors, and the Members participated in presentations and discussions regarding the Application and the planned bond issuance. In particular, Mr. McMurray, Ms. Ninan and Mr. Carter presented information to, and answered questions from, the Members, including in regard to the following matters:

A portion of the proceeds of the Series 2020 Bonds will be used to fund the demolition and rebuilding of a visitor’s parking garage for CCHS’s Wilmington, Delaware hospital (the “Wilmington Parking Garage”). The Wilmington Parking Garage is currently under construction and will include approximately 25,000 square feet of retail space. Mr. McMurray stated that CCHS does not yet know how the retail space will be used, and noted that the potential uses include physicians’ office space and/or laboratory space. He further noted that CCHS has accelerated construction of the Wilmington Parking Garage because of an unrelated pending construction project (regarding work on I-95), and as a consequence CCHS does not yet have specifics for the proposed retail space.

Another portion of the proceeds of the Series 2020 Bonds will be used to construct a women and children’s tower at CCHS’s Newark, Delaware hospital (the “Tower”). Mr. McMurray stated that CCHS plans to take possession of the Tower in late March of 2020, with a formal opening expected in April or May of 2020. He noted that construction on the Tower is nearly complete. He further noted that the Tower project is intended to bring the Newark hospital up to current standards of care, which includes providing primarily private labor and delivery rooms rather than the Newark hospital’s current semi-private rooms. Mr. McMurray referred the Members to CCHS’s Delaware Health Review Board application for a Certificate of Public Review (“COPR”) for the Tower and noted that it was originally going to be built using CCHS’s own funds. He explained that circumstances have changed since the application was submitted in 2015, including with respect to the way in which hospitals are paid or reimbursed for services rendered. He stated that health care providers’ use of capital will continue to change as health care evolves and becomes more data-driven. He also noted that the current market environment is favorable to borrowing to fund CCHS’s projects.

Mr. McMurray closed his presentation by referencing CCHS’s strong balance sheet and its AA+ rating from Standard & Poor’s.

Following Mr. McMurray’s presentation, Mr. Palley requested information regarding the types of agreements CCHS, as a 501(c)(3) organization, will enter with the future

tenants of the Wilmington Parking Garage's retail space. Mr. McMurray responded that those decisions have not been made yet, and stated that CCHS does not know whether the retail space will host for-profit practices. Mr. Palley asserted that the retail space's tenants should be congruent with the space being funded by Authority bonds. Mr. McMurray responded that CCHS has no intention of using the retail space for anything inconsistent with the furtherance of CCHS's mission, and said that any tenants moving into the retail space would be congruent to CCHS's mission as a 501(c)(3) organization.

Mr. Palley also noted that community-based care providers have demonstrated favorable care and cost outcomes by providing preventive prenatal and post-natal care during home visits that can prevent issues from developing and requiring hospital care. He stated that he did not see any mention of CCHS providing home visits in CCHS's bond financing application or COPR application, and asked whether CCHS provides such community-based care. McMurray responded that the Tower is designed to bring the Newark hospital up to current standards of care.

Mr. Baker asked about the demolition of the Annex Building on Washington Street in Wilmington, Delaware, and asked whether it would be rebuilt. Mr. McMurray noted that the Annex Building had contained office space and stated that CCHS has not yet determined whether there will be any reconstruction of this building.

Ms. More asked for clarification as to the taxable portion of the Series 2020 Bonds and the proposed use of such funds. Mr. McMurray noted that proceeds of the Christiana Care Health Services, Inc. Series 2008 tax-exempt bond issuance were used to buy land on which CCHS built a freestanding emergency department. He mentioned an opportunity for CCHS to build an ambulatory surgery center on that land that may be operated in partnership with a for-profit entity. He explained that the taxable portion of the Series 2020 Bonds may be used to remove the use restrictions on that land stemming from the tax-exempt Series 2008 bonds.

Mr. Riddle referenced CCHS's recently-announced acquisition of Union Hospital in Elkton, Maryland and requested that CCHS provide a high-level overview, including whether CCHS will need to contribute capital or assume debt in connection with the acquisition. Mr. McMurray responded that CCHS already provides health care services to Elkton County, Maryland residents, and stated that CCHS wants to continue to provide care to those community members and maintain the operation of Union Hospital. From a strategic standpoint, he noted that Union Hospital has a particular Medicare waiver model with which existing CCHS interventions can work well, and stated that CCHS plans to develop new payment models and will seek to shape health care regulation in Maryland. He also noted that while Union Hospital has had financial difficulties, including operating losses in the past few years, it has revenues of \$175 million a year and is cash-flow positive. Mr. McMurray said that CCHS intends to encourage Union Hospital to increase its capital spending to a more standard five to ten percent of operating revenue. Mr. McMurray noted that CCHS has not made any sizable capital commitments in connection with the Union Hospital acquisition other than agreeing to support Union Hospital's commitment to provide behavioral health services in Elkton, Maryland. CCHS has agreed to support Union Hospital's commitment or a similar concept up to \$11 million. It

was also discussed that Union Hospital's IT system is not hosted by a major IT provider, but Mr. McMurray stated that CCHS is not particularly concerned about the current IT system. Lastly, he stated that Union Hospital has about \$60 million of debt, and that CCHS will evaluate whether it would be beneficial to refinance such debt.

As part of the discussion regarding CCHS's acquisition of Union Hospital, Mr. McMurray stated that all of the proceeds of the Series 2020 Bonds will be used in Delaware for Delaware-specific projects. Ms. Ninan noted that the Delaware Health Facilities Act (the "DHF Act") is geographically specific and suggested that the Authority consider proposing legislation to change the DHF Act to adjust geographic limitations for Delaware-based health care providers that operate in nearby states.

Mr. Carter then presented detailed information to the Members regarding the proposed plan of finance. He noted that the Series 2020 Bond transaction removes risks associated with CCHS's existing variable rate debt, and stated that the Series 2020 Bonds will be fixed rate, representing a more conservative financing approach. He also noted that a portion of the Series 2020 Bonds will be taxable to maximize asset flexibility. Mr. Carter stated that the bond issuance will increase CCHS's debt from approximately \$236 million to \$275 million.

Ms. More asked for more information regarding the planned J.P. Morgan swap termination in connection with the redemption of the Christiana Care Health Services, Inc. Series 2008B bonds using proceeds of the Series 2020 Bonds. Mr. Carter stated that on the day the Series 2020 Bonds are priced, CCHS will lock in a swap termination amount. The termination amount will be funded when the Series 2020 Bonds close. He stated that the termination amount fluctuates based on market transactions, but is expected to be approximately \$1 million.

Following the presentations and discussions, Ms. Abrantes turned the Members' attention to Prager's bond financing memorandum and stated Prager's favorable recommendation regarding the proposed 2020 bond issuance. Ms. Abrantes noted that although CCHS is borrowing additional funds, it will reduce its annual cash outlays by using the proceeds of the Series 2020 Bonds to redeem outstanding bonds and by terminating the swap. She noted the debt service financial covenant of 1.1x to be applicable to the Series 2020 Bonds, which she stated is favorable to CCHS and easily achievable.

After discussion, the Members determined by unanimous vote of all Members present in person to approve the proposed bond financing, and Mr. O'Toole and Ms. Frank reviewed for the Authority the related bond resolution, attached hereto as Exhibit A (the "Bond Resolution"), which likewise was adopted by unanimous vote of all Members present in person.

As part of their review of the Bond Resolution with respect to the Preliminary Official Statement and the Official Statement referenced therein, the Members confirmed that they are not aware of any litigation, pending or otherwise, against the Authority.

Also as part of their review and adoption of the Bond Resolution, the Members appointed Rolf F. Eriksen, Desmond A. Baker, and Howard A. Palley to the Bond Committee, with a scheduled meeting date of January 23, 2020.

Mr. Eriksen confirmed that there were no members of the public in attendance in person or by conference telephone and accordingly that there was no public comment with regard to the Application from any such members of the public.

Upon motion duly made and seconded, the Members present in person unanimously adopted the Bond Resolution. Those in attendance representing CCHS thanked the Members for their consideration.

**Adjournment**

There being no further business, Mr. Eriksen adjourned the meeting at 12:05 p.m.

**CERTIFICATION**

I, Desmond A. Baker, hereby certify that the foregoing is a true and correct copy of the Minutes of Meeting of the Delaware Health Facilities Authority held on January 6, 2020.

Date:

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Desmond A. Baker  
Secretary

**Exhibit A**

[Bond Resolution]